

U.S. Direct Investments Abroad in 1971

THE value of U.S. direct investments abroad totaled \$86.0 billion at yearend 1971, up \$7.8 billion from yearend 1970 (table 2). The increase reflected both large capital outflows from the United States and large reinvestments of direct investment earnings (table 1). Particularly big increases in the value of investment were registered for manufacturing affiliates in the developed countries and for petroleum affiliates in other areas (table 2 and chart 8).

Direct investors' ownership benefits measured on the broad earnings basis totaled a record \$12.6 billion in 1971

(table 3). The broad earnings basis sums the direct investors' receipts of dividends, interest, branch earnings, and royalties and fees from the affiliates plus the investors' share of affiliates' reinvested earnings. Manufacturing affiliates in developed countries contributed \$4.1 billion to the \$12.6 billion broad earnings total and petroleum affiliates in other areas contributed \$3.6 billion. The total was up \$1.7 billion from 1970, a record increase; the growth centered in petroleum affiliates in "other areas", which includes crude production affiliates in developing areas

and marketing and shipping affiliates in international.

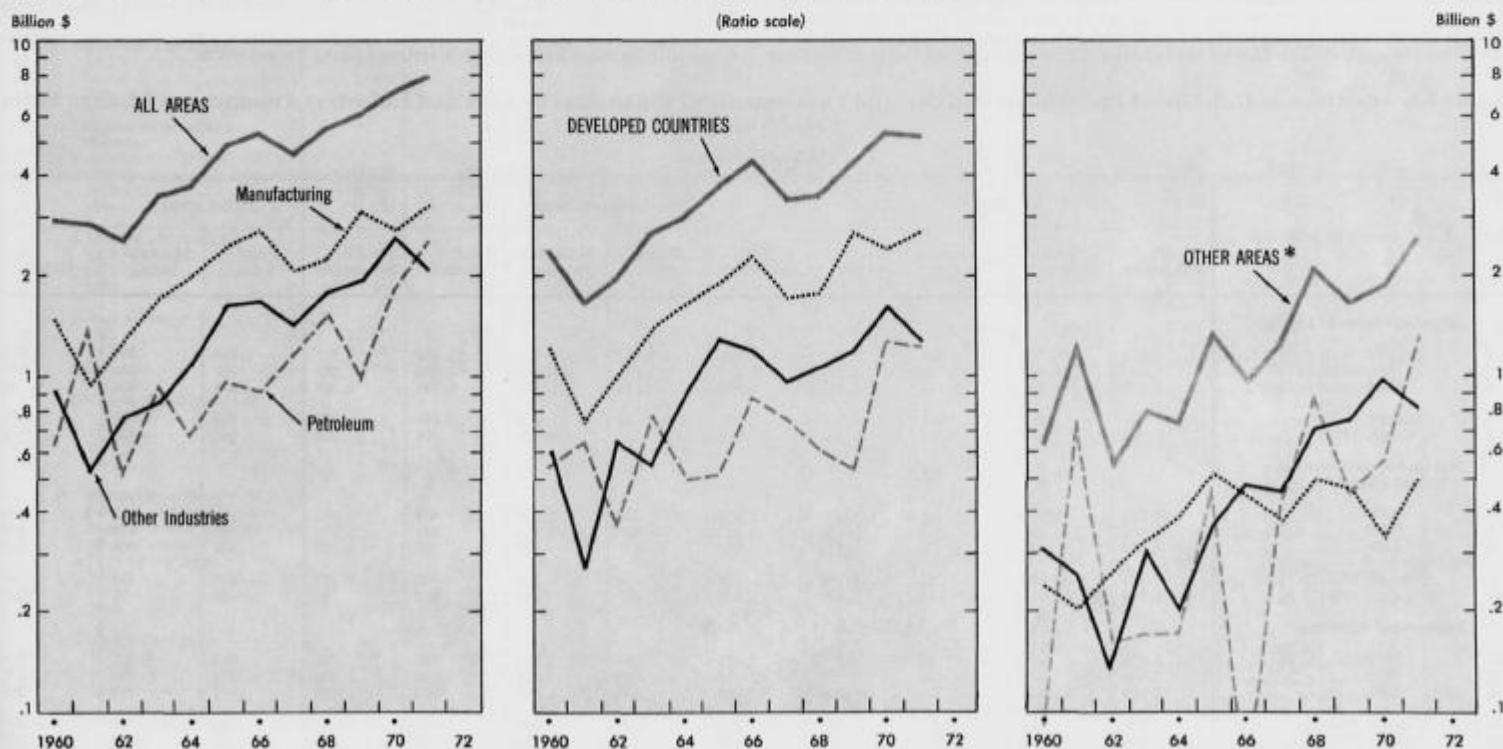
Direct investment and U.S. corporate balance of payment flows

Table 1 shows both the identifiable direct investment transactions and the other identifiable transactions of U.S. corporations. Although the corporate data are not collected in a way that allows transactions associated with di-

NOTE.—Statistical material for this article was prepared under the general supervision of Richard L. Smith, with major assistance from Gregory G. Fouch.

CHART 8

Annual Additions to Direct Investments Abroad by Major Area and by Industry of Affiliate



* Includes developing countries, and the international unaffiliated category.

Table 1.—U.S. Balance of Payments Flows Related to Direct Investments Abroad and Other Corporate Transactions

(Millions of dollars)

Line	Item and balance of payments sign; debits (-), credits (+)	All areas			Developed countries			Other areas ¹			Change 1970-71		
		1968 ²	1970 ²	1971 ²	1968 ²	1970 ²	1971 ²	1968 ²	1970 ²	1971 ²	All areas	Developed countries	Other areas
1	Net flow ³	5,755	6,131	4,979	2,865	3,641	2,308	2,779	2,486	2,631	-1,191	-1,332	241
2	Change in corporate claims on foreigners.....	-6,986	-7,454	-8,383	-5,899	-6,816	-5,898	-2,978	-2,338	-3,960	-1,505	-782	-722
3	Change in direct investment position.....	-6,060	-7,145	-7,823	-4,858	-5,260	-4,201	-1,663	-1,888	-2,621	-878	57	-735
4	Balance of payments capital flows.....	-2,254	-4,400	-4,785	-2,129	-3,238	-2,524	-1,125	-1,162	-1,941	-385	614	-779
5	Reinvested earnings.....	-2,004	-2,948	-3,110	-2,184	-2,075	-2,375	-408	-874	-741	-188	-303	133
6	Adjustments ⁴	-182	304	58	-723	54	-1	-86	140	60	-143	-55	-90
7	Change in other corporate claims.....	-910	-308	-1,128	-503	143	-697	-413	-432	-436	-827	-848	19
8	Long-term.....	-424	-300	-109	-223	-85	-24	-202	-294	-85	191	73	110
9	Short-term.....	371	341	-800	361	421	-379	10	-70	-127	-987	-600	-57
10	Liquid.....	301	340	-391	257	182	-284	-44	-178	-227	-161	-112	-48
11	Nonliquid.....	-682			-603			-177					
12	Change in corporate liabilities to foreigners.....	2,125	3,364	1,635	1,949	2,844	1,368	169	320	287	-1,731	-1,876	-53
13	New issues of securities sold abroad by U.S. corporations ⁵	1,089	622	1,173	1,099	829	1,173				854	351	
14	Change in corporate liabilities other than new issues.....	1,036	2,742	482	850	2,015	195	169	320	267	-2,080	-2,027	-53
15	Long-term.....	701	1,112	233	664	1,004	160	47	108	63	-879	-854	-25
16	Short-term ⁶	293	867	-20	263	773	-204	40	212	184	-1,007	-878	-28
17	Adjustments ⁷	105	443	249	23	440	249	82			-194	-194	
18	Direct investors' ownership benefits, broad average basis.....	9,544	10,885	12,571	5,430	8,290	7,057	4,513	4,868	5,194	1,704	877	826
19	Receipts of income on U.S. direct investments.....	7,340	7,920	9,435	3,296	4,135	4,712	4,044	3,784	4,743	1,535	577	980
20	Royalties and fees.....	1,082	1,919	2,189	1,212	1,403	1,399	460	515	570	250	188	65
21	Dividends and interest.....	3,064	3,560	4,150	1,854	2,402	2,927	1,228	1,148	1,519	605	335	371
22	Branch earnings.....	2,674	2,431	3,130	228	320	478	2,347	2,121	2,654	870	140	633
23	Reinvested earnings.....	2,604	2,045	3,118	2,134	2,075	2,375	436	574	741	168	300	-133
24	Offset to adjustments ⁸	649	-647	-387	445	-497	-246	164	-100	-60	340	249	90

¹ Revised. ² Preliminary.³ Other areas includes developing countries and international, unallocated.⁴ Lines 2-12+18-24.⁵ These adjustments to the international investment position of the United States do not enter the balance of payments flow figures. The line 8 adjustment is for any difference between values realized by the U.S. reporter on sale or liquidation of the foreign affiliate, and the value of the reporter's equity as shown on the books of the foreign affiliate. The adjustments in lines 11 and 17 reflect changes in the value of outstanding amounts of other U.S. claims or liabilities, because of changes in price and in foreign currency values vis-a-vis the dollar; these

lines also reflect adjustments for changes in coverage and for new benchmark surveys of assets and liabilities.

⁶ Excludes brokerage claims and liabilities.⁷ Excludes funds obtained abroad by U.S. corporations through bank loans and other credits and also excludes securities issued by subsidiaries incorporated abroad. However, securities issued by finance subsidiaries incorporated in the Netherlands Antilles are treated as if they had been issued by U.S. corporations to the extent that the proceeds of such issues are transferred to U.S. parent companies.⁸ Excludes an increase in U.S. corporate long-term claims of \$256 million that was associated with increased foreign direct investment in the United States.

Table 2.—Additions to U.S. Direct Investment Position and Components of Financing, by Area and Industry: Amount and Change From Preceding Year

(Millions of dollars)

Line	Item and year	All areas				Developed countries				Other areas ¹			
		All industries	Petro-leum	Manufac-turing	Other	All industries	Petro-leum	Manufac-turing	Other	All industries	Petro-leum	Manufac-turing	Other
1	Direct investment position ²												
2	Additions in 1971 ³	7,823	2,344	3,215	2,065	5,201	1,231	2,717	1,253	2,821	1,313	495	812
3	Additions in 1970.....	7,145	1,832	2,734	2,579	4,250	1,291	2,990	1,589	1,888	571	338	980
4	Additions in 1969.....	6,060	908	3,113	1,942	4,380	641	2,652	1,193	1,863	454	401	48
5	Change, 1970-71.....	678	712	481	-514	-57	-39	310	-346	735	742	161	-187
6	Change, 1969-70.....	1,085	837	-579	637	872	720	-243	-464	223	127	-125	32
7	Net capital outflows from United States ³												
8	1971 ³	4,765	1,948	1,469	1,357	2,824	958	1,225	644	1,041	863	283	715
9	1970.....	4,400	1,480	1,205	1,845	3,228	1,053	1,185	907	1,162	485	100	648
10	1969.....	3,254	919	1,160	1,175	2,129	447	905	727	1,120	471	200	446
11	Change, 1970-71.....	265	468	173	-288	-414	-99	40	-353	770	578	134	67
12	Change, 1969-70.....	1,146	561	135	470	1,109	608	220	-278	37	-68	-67	200
13	Reinvested earnings ⁴												
14	1971 ³	3,116	618	1,785	710	2,375	208	1,008	692	741	340	377	114
15	1970.....	2,048	425	1,534	680	2,070	205	1,232	618	874	221	282	371
16	1969.....	2,604	-50	1,030	725	2,134	-82	1,686	522	460	-7	274	203
17	Change, 1970-71.....	168	191	251	-273	300	61	260	-10	-133	120	-5	-257
18	Change, 1969-70.....	344	484	-605	284	-59	267	-412	86	405	228	8	168
19	Adjustments ⁵												
20	Change, 1970-71.....	145	42	55	60	65	7	22	28	90	35	32	24
21	Change, 1969-70.....	-209	-188	-100	-98	-177	-144	-60	36	-219	-44	-41	-135

¹ Revised. ² Preliminary.³ Includes developing countries and international, unallocated.⁴ Lines 1, 2, and 3 correspond to appropriate column detail for line 3 in table 1.⁵ Lines 6, 7, and 8 correspond to appropriate column detail for line 4 in table 1.⁶ Lines 11, 12, and 13 correspond to appropriate column detail for line 5 in table 1.⁷ Lines 16 and 17 correspond to appropriate column detail for line 6 in table 1.

rect investment to be separated from other corporate transactions, it is likely that much of the movement in these other corporate claims and liabilities is in fact associated with direct investment. It is for this reason that the data are brought together in table 1. The net flow shown in table 1 indicates the identifiable impact that all these transactions have on the U.S. balance of payments on the official reserve transactions basis. However, this figure is

not coterminous with the balance of payments impact of direct investments. For one thing, some of the international transactions reported by U.S. corporations, such as trade credits, are in fact not associated with direct investment activities. Also, some of the important balance of payments effects of direct investment, such as exports and imports associated with direct investment and interest payments to foreign holders of U.S. corporate debt associated with

direct investment, are not shown because adequate data on the role of U.S. direct investors in these accounts are lacking.

The identifiable U.S. corporate transactions shown in table 1 had a net favorable impact on the U.S. balance of payments of \$4.9 billion in 1971 (line 1). This was \$1.2 billion less than the comparable figure in 1970. Acceleration of direct investment in affiliates had an adverse impact of \$0.7 billion on the

Table 3.—Alternative Measures of Return on U.S. Direct Investments Abroad, by Area and Industry

(Millions of dollars or percent)

Line	Item and year	All areas				Developed countries				Other areas ¹			
		All industries	Petroleum	Manufacturing	Other	All industries	Petroleum	Manufacturing	Other	All industries	Petroleum	Manufacturing	Other
1	A. Branch earnings:												
2	1971 ²	2,120	2,325	90	709	476	2	56	419	2,054	2,325	40	261
3	1970 ²	2,451	1,731	82	638	330	-30	45	415	2,121	1,700	37	323
4	1969	2,574	1,731	72	721	228	-83	24	246	2,347	1,844	38	456
5	B. Dividends:												
6	1971 ²	2,534	940	1,011	663	2,163	182	1,370	601	1,381	787	241	342
7	1970 ²	2,475	714	1,042	710	1,910	144	1,263	612	1,090	570	248	268
8	1969	2,583	739	1,051	704	1,466	165	851	440	1,118	571	100	348
9	C. Foreign withholding taxes:												
10	1971 ²	446	72	207	100	310	24	914	51	120	46	52	27
11	1970 ²	436	45	257	103	296	23	208	60	118	43	51	24
12	1969	265	42	225	88	288	42	173	66	65	11	52	22
13	D. Reinvested earnings:												
14	1971 ²	2,114	610	1,285	718	2,376	260	1,508	602	711	360	277	114
15	1970 ²	2,045	425	1,534	680	2,076	205	1,262	618	574	221	282	371
16	1969	2,604	-80	1,020	726	2,124	-52	1,005	523	469	-7	274	263
17	E. Interest: ³												
18	1971 ²	622	106	223	293	484	135	194	158	138	31	30	68
19	1970 ²	575	104	234	177	443	142	188	123	122	23	47	63
20	1969	501	117	218	171	701	06	108	126	110	20	46	44
21	F. Royalties and fees:												
22	1971 ²	2,160	250	1,110	794	1,500	125	657	510	570	134	158	278
23	1970 ²	1,010	216	1,002	701	1,183	96	890	448	515	120	143	242
24	1969	1,682	105	586	619	1,212	57	737	380	400	107	133	231
25	G. Measures of return, dollars:												
26	Earnings ⁴ :												
27	1971 ²	10,239	3,062	3,780	2,467	5,324	474	3,148	1,702	4,104	3,505	611	785
28	1970 ²	8,789	2,035	3,416	2,439	4,662	343	2,707	1,614	3,137	2,523	619	925
29	1969	8,125	2,462	3,267	2,388	4,108	65	2,723	1,320	4,020	2,397	564	1,060
30	Adjusted earnings ⁵ :												
31	1971 ²	10,402	4,076	3,725	2,002	5,480	685	3,138	1,777	4,014	3,401	607	825
32	1970 ²	8,849	3,034	3,392	2,623	4,807	403	2,770	1,588	4,143	2,573	614	955
33	1969	8,261	2,577	3,375	2,410	4,216	140	2,719	1,360	4,014	2,438	567	1,090
34	Broad earnings ⁶ :												
35	1971 ²	12,571	4,336	4,841	3,800	7,088	710	4,065	2,263	5,484	3,028	780	1,103
36	1970 ²	10,808	3,250	4,304	3,224	6,210	657	3,038	2,010	4,068	2,003	767	1,206
37	1969	9,048	2,771	4,144	3,020	5,430	236	3,450	1,730	4,613	2,534	689	1,291
38	Balance of payments income ⁷ :												
39	1971 ²	8,455	3,710	3,666	2,536	4,712	444	2,577	1,601	4,743	3,375	478	980
40	1970 ²	7,430	2,825	2,800	2,736	4,135	362	2,380	1,208	3,761	2,472	473	837
41	1969	7,238	2,691	2,204	2,361	3,206	258	1,701	1,217	4,041	2,549	418	1,068
42	H. Measures of return, as a percent of direct investment position at beginning of year:												
43	Adjusted earnings:												
44	1971 ²	13.3	18.9	11.5	14.4	10.3	5.0	11.7	16.1	19.6	34.8	10.0	8.0
45	1970 ²	12.0	15.3	11.5	16.5	10.0	4.4	11.4	16.1	17.9	27.2	11.0	11.1
46	1969	12.7	18.0	12.4	12.2	9.7	1.5	12.5	11.4	18.8	27.1	11.0	13.5
47	Broad earnings:												
48	1971 ²	15.1	20.0	15.0	18.8	13.3	6.1	15.3	20.8	21.0	36.3	13.7	11.6
49	1970 ²	15.3	18.0	14.9	20.2	13.0	5.3	14.9	20.7	20.1	26.6	14.7	14.1
50	1969	15.3	14.7	15.7	15.4	12.5	2.4	15.9	14.7	21.0	25.3	14.7	15.6
51	Balance of payments income:												
52	1971 ²	12.1	17.1	9.5	14.1	8.0	3.6	9.6	15.4	18.0	32.8	8.7	10.4
53	1970 ²	11.1	14.2	9.7	14.6	8.0	3.4	15.8	14.4	16.3	26.2	10.2	11.6
54	1969	11.3	15.0	8.3	11.7	7.0	2.9	8.2	10.3	18.8	25.3	8.6	13.0

¹ Revised. ² Preliminary.

1. Includes developing countries and international, unallocated.
2. Includes preferred dividends, which in 1971 totaled \$10 million.
3. Equals A+B+C+D.
4. Equals A+B+D+E.

5. Equals A+B+D+E+F.
6. Equals A+B+E+F.

NOTE.—For an explanation of the relation between earnings, reinvested earnings, foreign withholding taxes and interest, dividends, and branch earnings see the Technical Note.

Table 4.—Selected Data on U.S. Direct
[Millions]

Area and year	Total, all industries					Mining and smelting				
	Book value at yearend ¹	Net capital outflows	Reinvested earnings ²	Earnings	Interest dividends and branch earnings	Book value at yearend ¹	Net capital outflows	Reinvested earnings ²	Earnings	Interest dividends and branch earnings
AMERICA:										
1964.....	44,480	2,328	1,431	5,071	2,674	3,605	126	105	512	403
1965.....	40,474	2,466	1,542	5,480	2,583	2,931	128	126	571	442
1966.....	44,700	3,651	1,738	5,702	4,046	4,345	305	129	559	524
1967.....	49,491	2,157	1,508	4,034	4,516	4,875	230	135	744	546
1968.....	64,583	2,299	2,170	7,022	4,573	4,430	440	123	726	544
1969.....	71,043	3,284	2,904	8,126	5,043	4,074	79	167	752	544
1970.....	78,178	4,400	2,048	8,789	6,001	4,165	382	111	875	522
1971.....	86,001	4,766	3,116	10,228	7,286	4,720	519	26	804	682
Canada:										
1964.....	13,856	203	600	1,106	534	1,713	01	79	191	118
1965.....	15,318	902	640	1,268	703	1,857	61	66	108	110
1966.....	17,017	1,163	547	1,387	758	2,080	172	67	191	120
1967.....	18,102	403	644	1,337	780	2,342	172	62	240	154
1968.....	19,535	635	772	1,490	851	2,538	195	163	275	160
1969.....	23,127	671	937	1,694	782	2,760	64	77	230	162
1970.....	22,700	929	787	1,686	944	2,839	140	70	260	176
1971.....	24,030	226	1,046	1,813	1,000	3,266	271	35	296	170
Europe:										
United Kingdom:										
1964.....	4,555	214	167	478	281	2	(**)	(**)	(**)	(**)
1965.....	5,123	217	282	504	270	2	(**)	(**)	(**)	(**)
1966.....	5,670	406	195	432	251	3	(**)	(**)	(**)	(**)
1967.....	6,213	331	81	378	274	1	(**)	(**)	(**)	(**)
1968.....	6,604	383	211	503	275	2	(**)	(**)	(**)	(**)
1969.....	7,190	216	161	602	332	1	(**)	(**)	(**)	(**)
1970.....	7,006	645	212	693	386	5	(**)	(**)	(**)	(**)
1971.....	8,941	648	297	757	472	8	(**)	(**)	(**)	(**)
European Economic Community:										
1964.....	5,421	803	100	396	273	13	(**)	(**)	(**)	(**)
1965.....	6,304	657	—	283	368	16	(**)	(**)	(**)	(**)
1966.....	7,587	1,146	100	436	321	17	(**)	(**)	(**)	(**)
1967.....	8,444	642	41	468	398	10	(**)	(**)	(**)	(**)
1968.....	9,812	488	108	543	484	10	(**)	(**)	(**)	(**)
1969.....	10,266	690	508	645	560	17	(**)	(**)	(**)	(**)
1970.....	11,774	694	505	1,318	785	16	(**)	(**)	(**)	(**)
1971.....	13,574	1,306	487	1,380	896	13	(**)	(**)	(**)	(**)
Other Western Europe:										
1964.....	2,143	372	141	236	108	41	(**)	(**)	(**)	(**)
1965.....	2,436	805	148	277	132	37	(**)	(**)	(**)	(**)
1966.....	2,967	285	140	293	157	34	(**)	(**)	(**)	(**)
1967.....	3,369	275	147	317	178	40	(**)	(**)	(**)	(**)
1968.....	3,701	290	137	324	190	40	(**)	(**)	(**)	(**)
1969.....	4,200	236	230	470	240	42	(**)	(**)	(**)	(**)
1970.....	4,740	275	271	477	210	45	(**)	(**)	(**)	(**)
1971.....	5,106	131	218	567	300	57	(**)	(**)	(**)	(**)
Japan:										
1964.....	908	78	35	59	30					
1965.....	975	19	40	91	47					
1966.....	795	32	49	91	43					
1967.....	870	34	70	123	40					
1968.....	1,050	78	104	167	60					
1969.....	1,244	89	105	135	70					
1970.....	1,468	128	116	236	100					
1971.....	1,848	211	120	294	161					
Australia, New Zealand, and South Africa:										
1964.....	2,063	137	117	278	100	109	11	11	80	13
1965.....	2,334	173	98	280	140	227	37	8	42	35
1966.....	2,065	167	148	281	135	324	17	21	68	39
1967.....	3,172	364	162	300	135	110	78	14	65	39
1968.....	3,506	171	180	320	161	448	22	6	64	53
1969.....	3,865	190	190	401	214	470	26	13	88	69
1970.....	4,358	288	164	452	299	583	88	20	111	88
1971.....	4,970	304	190	474	341	718	195	19	80	74
Latin American Republics and other Western Hemisphere:										
1964.....	10,254	113	290	1,214	1,011	1,404	40	20	268	245
1965.....	10,885	371	346	1,328	995	1,474	43	25	290	266
1966.....	11,488	307	343	1,433	1,119	1,666	60	31	359	327
1967.....	12,049	261	211	1,288	1,100	1,708	71	24	297	265
1968.....	13,101	677	346	1,374	1,213	1,930	227	3	362	374
1969.....	13,858	378	378	1,646	1,277	1,958	~13	43	404	404
1970.....	14,780	468	442	1,482	1,087	2,871	130	~17	245	260
1971.....	16,763	688	373	1,467	1,124	2,119	68	~40	176	210
Other areas:										
1964.....	5,801	312	122	1,318	1,234	324	2	3	21	17
1965.....	6,275	502	123	1,418	1,316	325	~12	13	33	22
1966.....	6,040	167	214	1,480	1,244	324	~6	12	30	27
1967.....	7,373	578	244	1,745	1,505	546	9	4	30	32
1968.....	8,383	657	236	1,777	1,777	840	~1	14	55	41
1969.....	9,288	760	43	2,374	2,367	368	8	30	64	36
1970.....	10,374	504	432	2,656	2,212	461	18	34	81	28
1971.....	11,802	1,272	390	3,437	3,048	543	78	10	81	17

¹ Revised. ² Preliminary. * Less than \$500,000 (=). ** Included in other industries.
1. The value of investments in specified industries and countries is affected by capital flows among foreign affiliates shown in table 3.

2. Represents U.S. owners' share in the reinvested earnings of foreign corporations.
NOTE.—For an explanation of the relation between earnings, reinvested earnings, and interest, dividends, and branch earnings see the Technical Note.

Petroleum					Manufacturing					Other Industries					Year
Book value at yearend 1	Net capital outflows	Re-invested earnings 2	Earnings	Interest dividends and branch earnings	Book value at yearend 1	Net capital outflows	Re-invested earnings 2	Earnings	Interest dividends and branch earnings	Book value at yearend 1	Net capital outflows	Re-invested earnings 2	Earnings	Interest dividends and branch earnings	
14,328	780	-35	1,003	1,646	14,035	1,064	954	1,852	885	0,652	398	427	890	522	1964
15,258	877	44	1,030	1,768	15,239	1,025	824	2,022	1,094	10,000	558	467	1,037	628	1965
16,222	885	106	1,055	1,781	22,076	1,752	963	2,104	1,116	12,184	718	520	1,071	624	1966
17,399	1,069	175	2,120	1,528	24,172	1,234	847	2,065	1,183	13,044	504	442	1,112	740	1967
18,897	1,231	230	2,440	2,271	24,414	945	1,251	2,510	1,265	14,248	582	541	1,280	782	1968
18,832	919	-40	2,452	3,638	24,627	1,180	1,089	3,287	1,337	15,048	1,006	557	1,506	1,020	1969
21,714	1,490	425	2,634	3,608	22,281	1,305	1,534	3,419	1,849	18,085	1,282	827	1,784	981	1970
24,256	1,940	616	3,082	3,459	26,476	1,488	1,755	3,750	1,941	20,690	837	680	1,963	1,402	1971
3,196	25	54	170	118	6,196	140	209	685	295	2,746	42	84	189	129	1964
3,345	179	85	183	122	6,672	305	233	635	315	3,220	337	104	222	155	1965
3,406	155	91	196	112	7,802	460	278	628	354	3,625	260	111	222	170	1966
3,819	115	93	207	132	8,095	23	344	618	296	3,847	100	125	257	206	1967
4,064	109	107	213	160	8,568	29	412	672	301	4,235	236	151	300	221	1968
4,353	179	86	212	152	9,406	248	540	823	255	4,401	100	105	285	202	1969
4,807	201	100	302	183	10,080	335	564	679	350	4,834	143	203	355	225	1970
5,134	95	283	371	140	10,587	-85	667	926	385	5,034	-20	162	410	204	1971
910	80	-23	44	28	3,011	116	154	380	200	622	60	22	74	54	1964
1,068	120	-1	-8	-4	3,306	111	220	410	204	723	85	25	91	70	1965
1,191	125	-8	-25	-15	3,715	249	106	304	208	760	18	32	94	57	1966
1,432	297	-20	-83	-17	3,878	38	111	340	207	802	57	-1	92	84	1967
1,563	124	-21	-49	-15	4,243	124	216	442	206	885	74	18	110	84	1968
1,577	63	-41	-50	3	4,607	117	169	440	236	1,043	145	24	122	96	1969
1,820	305	-41	-27	40	4,077	102	210	472	224	1,175	148	28	148	111	1970
2,102	300	54	70	46	5,421	282	190	466	270	1,321	94	46	203	157	1971
1,515	227	-68	-36	24	3,180	465	141	370	211	761	190	19	65	41	1964
1,624	140	-15	-22	18	3,725	578	23	582	265	830	141	19	64	43	1965
1,680	237	-66	-29	17	4,404	624	140	413	287	1,188	224	15	61	45	1966
2,065	175	-56	-24	35	4,978	583	101	424	340	1,383	171	-3	47	52	1967
2,148	139	-77	-81	34	5,309	253	167	582	370	1,449	98	18	91	71	1968
2,244	125	-147	-129	20	5,482	385	584	610	342	1,611	148	85	155	89	1969
2,522	253	28	35	8	7,177	454	367	1,040	654	2,050	200	100	220	122	1970
2,927	451	-57	-25	00	6,380	749	462	1,127	637	2,274	75	123	286	159	1971
604	145	-7	3	18	437	35	25	61	18	581	135	114	186	72	1964
719	63	-4	-3	5	576	71	64	77	23	1,224	100	93	208	104	1965
822	134	-12	-12	2	750	118	60	83	24	1,343	96	93	224	123	1966
906	50	-5	-23	-12	943	141	40	82	44	1,475	82	100	255	146	1967
928	31	-14	-37	-18	1,135	175	51	97	47	1,679	-4	98	283	167	1968
998	38	-9	-8	4	1,350	93	101	168	63	1,825	104	145	278	179	1969
1,184	114	-10	-24	-7	1,658	117	112	158	43	2,034	44	103	334	163	1970
1,038	(*)	-28	-38	-6	1,755	97	90	174	54	2,206	34	147	371	222	1971
815	51	-1	4	8	207	22	28	41	8	77	4	2	15	14	1964
821	-3	10	14	9	275	21	35	55	17	79	2	2	22	21	1965
831	-1	11	15	8	334	22	38	55	18	91	11	2	19	17	1966
847	(*)	15	21	0	426	31	61	85	32	96	2	2	18	16	1967
855	45	13	20	8	522	11	56	127	37	122	21	4	20	14	1968
847	27	15	19	7	645	30	54	145	49	150	23	5	20	13	1969
580	85	29	20	6	749	32	75	144	60	194	30	11	36	25	1970
637	75	24	20	11	859	118	87	193	92	222	15	14	53	49	1971
570	31	5	10	4	1,083	64	100	163	66	263	22	2	32	10	1964
615	48	3	11	6	1,185	48	75	167	70	305	27	17	35	19	1965
646	11	10	23	3	1,322	65	70	181	70	354	13	30	46	17	1966
720	45	22	16	-6	1,640	224	80	174	86	304	25	27	38	22	1967
757	45	25	18	-3	1,890	82	110	152	82	445	20	26	45	25	1968
857	24	26	b	b	2,035	72	120	227	106	514	44	24	57	33	1969
910	45	20	17	26	2,252	75	124	264	116	632	79	11	50	40	1970
981	28	52	29	29	2,448	94	98	244	153	728	78	31	76	48	1971
3,639	7	2	580	531	3,507	137	161	244	98	2,764	-61	77	305	137	1964
3,646	-74	30	513	476	2,845	218	178	285	123	2,021	57	111	225	130	1965
3,475	-37	2	512	499	3,115	160	202	342	147	2,141	125	106	250	140	1966
3,473	-68	35	510	480	3,455	189	75	269	196	3,252	82	76	213	151	1967
3,680	177	42	531	480	4,393	222	194	408	214	3,455	68	114	245	130	1968
3,722	66	-15	434	472	4,347	133	225	405	237	3,851	189	123	350	151	1969
3,138	160	89	417	545	4,621	104	228	514	280	4,131	174	182	306	173	1970
4,164	280	68	511	444	4,005	183	223	537	270	4,454	231	114	274	190	1971
3,535	232	-6	1,077	1,131	388	80	31	63	20	1,315	28	100	165	80	1964
4,032	490	-4	1,150	1,150	455	86	24	65	28	1,484	27	91	179	91	1965
4,150	500	48	1,261	1,158	521	43	22	67	20	1,623	23	123	176	55	1966
4,817	445	95	1,455	1,387	629	77	24	68	35	1,779	43	121	180	60	1967
4,225	482	105	1,774	1,614	803	40	20	79	48	2,046	125	110	194	74	1968
4,897	415	8	1,933	1,864	813	73	45	98	47	2,351	264	8	250	283	1969
5,553	248	152	2,176	2,067	874	5	64	105	62	2,805	330	192	313	125	1970
7,189	783	285	2,907	2,690	1,003	83	45	104	61	3,247	345	21	391	288	1971

year-to-year change (line 3), but most of the deterioration was in transactions with unaffiliated foreigners: corporate claims on unaffiliated foreigners shifted adversely by \$0.8 billion (line 7), while borrowing abroad shifted adversely by \$1.7 billion (line 12). A large part of the adverse shift in U.S. corporate capital accounts was offset by the record increase of \$1.7 billion in direct investors' ownership benefits (line 18).

Overall, the \$1.2 billion adverse shift from 1970 to 1971 reflected transactions with developed countries; transactions with other areas showed a slight improvement in net flows to the United States.

The 1971 deterioration may have

been related to the international exchange crises, for both the increased direct investment capital outflow and the adverse swings in other U.S. corporate claims and liabilities were concentrated to an unusual degree in short-term accounts. For instance, among direct investment transactions, short-term capital outflows on intercompany accounts to incorporated foreign affiliates were \$1.1 billion in 1971, compared with \$0.7 billion in 1970. The adverse shifts in U.S. corporate capital transactions with unaffiliated foreigners were also concentrated in short-term accounts: short-term claims on foreigners increased sharply in 1971, compared with little change in 1970, and short-term liabilities decreased, compared with large increases in 1970. Some part of these shifts no doubt reflected a positioning of claims and liabilities in anticipation of a dollar devaluation. In addition, the exchange market uncertainties in 1971 probably made it more difficult than in prior years to arrange short-term foreign loans on attractive terms.

Factors other than the exchange market disruptions also influenced the 1971 deterioration in the net flow shown in table 1. For one thing, conditions in U.S. financial markets eased while conditions in some of the major foreign financial centers tightened, and both these developments would encourage outflows of U.S. funds to finance direct investment. Also, the 1970 and 1971 liberalizations of Foreign Direct Investment regulations possibly moderated the need to undertake new foreign borrowing as an offset to U.S. capital outflows for direct investment purposes.

In recent years, the rate of growth in direct investments has persistently exceeded that of other U.S. claims on foreigners. (See "The International Investment Position of the United States, Developments in 1971," in the October SURVEY.) At end-1971, the U.S. direct investment position accounted for nearly 48 percent of all foreign assets held by U.S. residents, up from 41 percent at end-1965. This increasing importance of direct investments is probably related to the structure of the U.S. balance of payments improvement programs. The programs allow larger U.S.

capital outflows for direct investment purposes than would otherwise be permitted if the larger outflows are offset by eligible foreign borrowings—and the volume of eligible foreign borrowings has been large. In contrast, many other types of U.S. capital outflows, particularly for portfolio investments, are subject to the Interest Equalization Tax and many types of U.S. bank lending to foreigners are subject to the Voluntary Credit Restraint Program. Thus, the balance of payments improvement programs have probably been less restrictive of the growth in U.S. direct investments than of the growth in other U.S. claims on foreigners.

Growth in the U.S. direct investment position

By industry, the largest addition to the direct investment position in 1971 was, as usual, in manufacturing (\$3.2 billion, see table 2). Continuing the trend of recent years, most of these manufacturing investments were in developed countries. The addition to U.S. direct investment in the petroleum industry was \$2.5 billion, split about equally between developed countries and the "other areas" category (which includes developing countries as well as international operations such as shipping). Additions to U.S. direct investment in other industries totaled \$2.1 billion.

The \$7.8 billion addition to the U.S. direct investment position in 1971 represents a rapid \$1.8 billion growth from 1969. This growth was mainly in investment in petroleum-related activities—production, transportation, refining, and marketing—as the addition to direct investment in petroleum affiliates accelerated from \$1 billion in 1969 to \$2.5 billion in 1971. This acceleration reflected continuing strong growth in foreign energy requirements and competition to secure and open new producing areas. Some of the growth in investment was in tankers and related port facilities, spurred by increased uncertainties in the Middle East that led the companies to adjust the amounts of crude produced in different areas and to change their transportation arrangements.

CHART 9

Earnings of Foreign Affiliates

Billion \$ (Ratio scale)

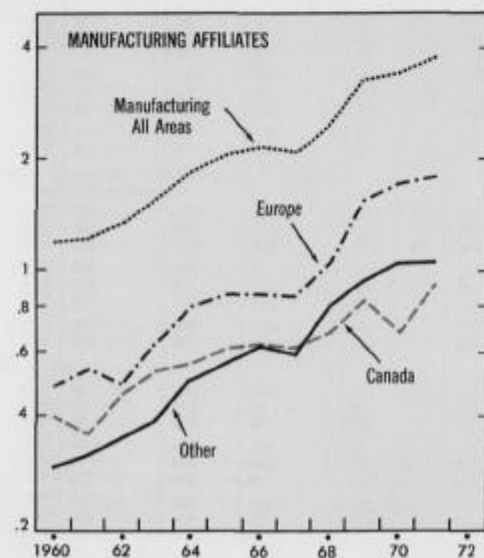
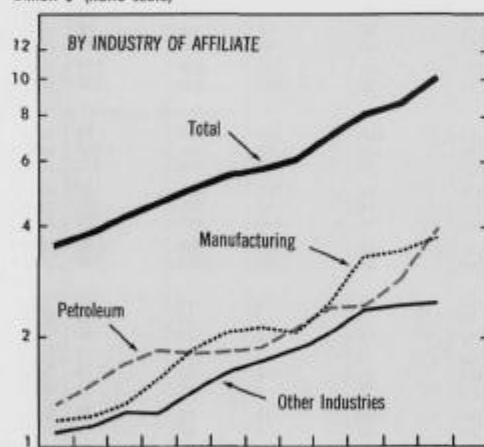
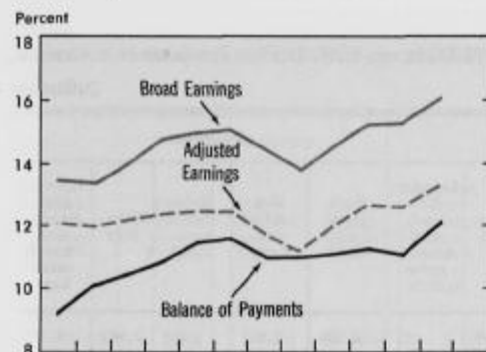


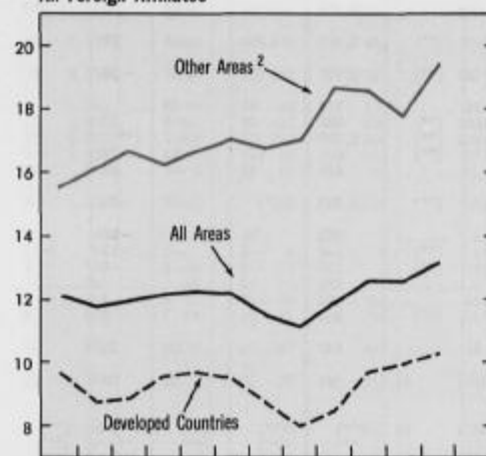
CHART 10

Rates of Return on U.S. Direct Investments Abroad

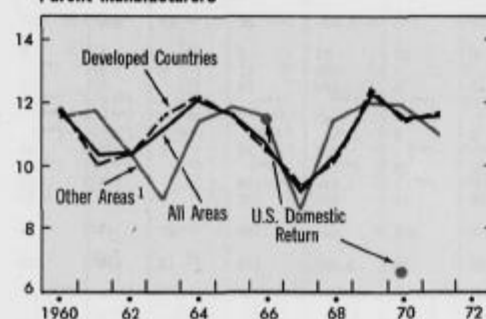
Alternative Measures of Return— All Foreign Affiliates¹



Adjusted Earnings by Major Area, All Foreign Affiliates



Manufacturing Affiliates' Adjusted Earnings Compared to Domestic Earnings of Parent Manufacturers³



1. Rates of return and alternative methods of computation are shown in table 3.

2. Includes developing countries and the international unallocated category.

3. U.S. domestic rate of return is the ratio of earnings from domestic operations to domestic net worth at the end of the year. These data are available for only 1966 and 1970. The rate of return of affiliates is the ratio of adjusted earnings to book value at the beginning of the year.

The U.S. domestic rate of return is calculated from a BEA sample of U.S. manufacturing firms which have foreign affiliates. The sample does not include all of the U.S. parents for which affiliate data are shown.

Table 5.—Net Capital Flows Between
Primary and Secondary Foreign Affiliates

(Millions of dollars)

Area and country (net inflow(-))	1967	1968	1969	1970	1971 ^a
Canada	1	-1	7	1	-1
Europe	10	-5	2	18	38
France.....	6	-3	-19	11	15
Germany.....	-3	-2	6	8	3
Italy.....	13	8	11	9	14
Switzerland.....	30	-11	6	-1	5
United Kingdom.....	-15	4	-28	-1	2
Other.....	-21	-1	26	-8	-1
Latin American Republics and other Western Hemisphere	-20	6	-8	4	-47
Argentina.....	-1	-3	3	3	5
Mexico.....	3	1	-1	-5	4
Panama.....	10	-2	-13	1	-6
Other.....	-32	10	3	5	-50
Other countries	9	(*)	-1	-23	10

^a Preliminary.

* Less than \$500,000 (±).

The acceleration in additions to petroleum direct investment from 1969 to 1971 was split almost equally between developed countries and other areas, but the acceleration from 1969 to 1970 was almost entirely in developed countries while the acceleration from 1970 to 1971 was entirely in the "other areas."

Components of additions to direct investment

The two main components of the 1971 addition of \$7.8 billion to the direct investment position (table 2) were net capital outflows from the United States (\$4.8 billion) and the U.S. share in affiliates' reinvested earnings (\$3.1 billion).

Reinvested earnings were less than 25 percent of the 1971 addition to direct investment in petroleum, but more than 50 percent of the addition to direct investment in manufacturing. This difference largely reflects the fact that almost all direct investment in crude petroleum production is in branches, reflecting the U.S. tax advantage attaching to the branch form of organization for extractive activities, while most foreign manufacturing affiliates are incorporated. Because of the way branch accounts are kept by the companies, the U.S. balance of payments accounts treat branch earnings as though they were entirely remitted to

the United States, and all additions to the net assets of foreign branches as U.S. capital outflows. As a result, no reinvested earnings figure is calculated for branches, but some of the net capital outflows to branches serve the same function as reinvested earnings do in the case of incorporated affiliates.

From 1969 to 1971, reinvested earnings grew from \$2.6 billion to \$3.1 billion, a 20 percent increase. This was less than half the rate of growth in net capital outflows, which went up from \$3.3 billion to \$4.8 billion, or 46 percent. The growth of reinvested earnings was slowed by a sharp increase in dividends remitted to U.S. parent companies, which bolstered the profit figures of the parents in a period when profits from domestic operations had deteriorated.

On the other hand, after mid-1970 U.S. corporations were rebuilding liquidity positions that had been run down in the preceding tight money period. This improvement facilitated

Table 6.—Acquisitions and Sales by
American Companies of Foreign Enter-
prises,¹ by Area and Industry

(Millions of dollars)

Area and industry	1970 ^a			1971 ^a		
	Ac- qui- sitions	Sales	Net	Ac- qui- sitions	Sales	Net
All areas	855	157	698	650	188	462
Petroleum.....	4	10	-6	34	7	27
Manufacturing.....	650	114	536	550	127	423
Other industries.....	201	33	168	66	54	12
Canada	164	6	158	66	21	45
Petroleum.....	2	.....	2	26	6	20
Manufacturing.....	108	3	105	30	2	28
Other industries.....	54	3	51	10	13	-3
Europe	567	56	511	412	112	300
Petroleum.....	2	8	-6	6	1	5
Manufacturing.....	472	42	430	360	98	262
Other industries.....	94	6	88	46	13	33
Other areas	123	94	28	172	56	116
Petroleum.....	(*)	2	-2	2	.....	2
Manufacturing.....	70	68	2	160	27	133
Other industries.....	52	24	28	10	29	-19

^a Revised. ^a Preliminary. ^a Less than \$500,000 (±).

¹ Acquisitions include partial and total purchases of voting securities of existing foreign corporations from foreign owners. Sales include partial and total sales of voting securities of foreign corporations by U.S. owners to foreign purchasers. Liquidations through the sale of assets, as distinct from sale of ownership interests, are not included. Changes in the share of ownership resulting from transactions between a parent and an affiliate—such as the purchase of treasury stock from an affiliate by a parent—are not included; only changes involving outside foreign owners or purchasers are included. Secondary foreign companies acquired or sold through primary foreign affiliates are not included.

the large increases in 1970 and 1971 in direct investment capital outflows. Those large increases may also have been facilitated by easing of Foreign Direct Investment regulations in 1970 and 1971.

Components of the return on U.S. direct investments

Table 3 gives alternative measures of the return on U.S. direct investments abroad, by major area and by major industry of the foreign affiliate. Panels

A through F give the basic components used to calculate the various measures; panel G gives the dollar return on the basis of each of four measures; and panel H gives the percentage rates of return, calculated on the value of U.S.

Table 7A.—Preliminary 1971 Data on U.S. Direct Investment Abroad,

(Billions of

Line	Area and countries ¹	Total, all industries					Mining and smelting					Petroleum				
		Book value at year-end ²	Net capital outflows	Reinvested earnings ³	Earnings	Interest, dividends, and branch earnings	Book value at year-end ²	Net capital outflows	Reinvested earnings ³	Earnings	Interest, dividends, and branch earnings	Book value at year-end ²	Net capital outflows	Reinvested earnings ³	Earnings	Interest, dividends, and branch earnings
1	All areas.....	58,081	4,768	3,116	18,338	7,286	5,728	419	24	504	484	31,288	1,449	616	3,362	3,459
2	Developed countries.....	58,346	2,824	2,315	6,354	3,114	4,958	388	47	294	247	12,954	936	294	474	319
3	Canada.....	24,030	226	1,496	1,913	1,000	3,265	271	36	206	170	5,134	69	262	371	139
4	Europe ⁴	27,621	2,683	1,869	2,462	1,689	78	2	-2	3	.....	8,202	788	-61	7	120
5	United Kingdom.....	8,941	648	297	757	472	8	(**)	(**)	(**)	(**)	2,102	300	64	78	46
6	European Economic Community.....	13,574	1,205	497	1,389	898	13	(**)	(**)	(**)	(**)	2,027	481	-57	-25	90
7	Belgium and Luxembourg.....	1,815	167	122	221	89	(*)	.....	.....	.....	.....	117	61	-10	.....	9
8	France.....	3,033	241	171	307	142	10	(**)	(**)	(**)	(**)	285	75	-5	17	31
9	Germany.....	5,214	474	145	640	478	(**)	(**)	(**)	(**)	(**)	1,300	92	7	(**)	21
10	Italy.....	1,880	580	-10	69	57	(**)	(**)	(**)	(**)	(**)	680	171	-72	-74	-2
11	Netherlands.....	1,672	94	89	161	102	(**)	(**)	(**)	(**)	(**)	516	82	-7	39	45
12	Other Western Europe.....	6,106	131	218	607	300	67	(**)	(**)	(**)	(**)	1,063	(*)	-28	-35	-6
13	Denmark.....	367	10	-20	-6	17	1	(**)	(**)	(**)	(**)	233	10	.....	-25	2
14	Norway.....	282	4	3	1	-5	(**)	(**)	(**)	(**)	(**)	130	-3	-1	-17	-14
15	Spain.....	777	37	0	31	23	(**)	(**)	(**)	(**)	(**)	127	-6	-8	-5	1
16	Sweden.....	688	44	34	48	16	(**)	(**)	(**)	(**)	(**)	331	12	.....	.....	.....
17	Switzerland.....	1,898	-29	135	330	187	(**)	(**)	(**)	(**)	(**)	344	-47	.....	.....	.....
18	Other ⁵	1,117	89	61	131	60	29	(**)	(**)	(**)	(**)	.....	24	2	6	4
19	Japan.....	1,818	211	126	284	161	.....	.....	.....	.....	.....	437	78	24	29	31
20	Americas, New Zealand and South Africa.....	4,876	284	196	474	394	748	163	15	84	74	981	28	52	68	29
21	Australia.....	3,704	244	120	318	238	502	.....	18	59	53	(**)	(**)	(**)	(**)	(**)
22	New Zealand.....	300	11	15	25	11	8	(*)	.....	.....	.....	(**)	(**)	(**)	(**)	(**)
23	South Africa.....	954	48	96	108	88	108	10	3	27	21	180	(**)	(**)	(**)	(**)
24	Developing countries.....	28,337	1,397	548	4,284	3,748	2,859	136	-21	218	286	9,163	718	135	3,947	2,863
25	Latin American Republics and other Western Hemisphere.....	18,783	688	373	1,467	1,124	2,118	88	-80	176	219	4,191	200	66	611	444
26	Latin American Republics.....	12,078	458	201	1,205	924	1,350	-1	-40	73	112	3,603	91	40	403	421
27	Mexico.....	1,840	53	-7	121	122	198	-12	-27	7	28	28	-3	(*)	4	(*)
28	Paraguay.....	1,464	138	77	138	73	10	.....	.....	.....	.....	236	17	.....	.....	(*)
29	Other Central America ⁶	622	26	6	34	30	8	(**)	(**)	(**)	(**)	179	19	.....	.....	.....
30	Argentina.....	1,348	50	14	78	67	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)
31	Brazil.....	2,846	65	132	206	73	110	(**)	(**)	(**)	(**)	145	2	(**)	(**)	(**)
32	Chile.....	721	-18	-7	-5	11	492	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)
33	Colombia.....	745	80	18	93	47	(**)	(**)	(**)	(**)	(**)	345	10	(**)	(**)	(**)
34	Peru.....	888	8	1	44	38	415	(**)	(**)	(**)	(**)	1,634	-104	(**)	(**)	(**)
35	Venezuela.....	2,898	-99	48	408	447	(**)	(**)	(**)	(**)	(**)	685	127	7	379	508
36	Other ⁷	767	121	11	25	16	43	(**)	(**)	(**)	(**)	.....	.....	.....	.....	.....
37	Other Western Hemisphere ⁸	2,785	211	82	282	200	760	88	.....	103	106	801	100	27	46	23
38	Other Africa ⁹	2,869	174	98	877	481	386	19	87	33	16	2,895	115	72	645	444
39	Liberia.....	191	-7	21	17	8	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)
40	Libya.....	1,644	33	(*)	499	410	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)
41	Other.....	1,634	147	87	180	84	225	20	17	25	8	1,669	91	94	100	46
42	Middle East ¹⁰	1,657	84	-9	1,976	1,889	3	.....	.....	.....	.....	1,466	48	-20	1,854	1,877
43	Other Asia and Pacific.....	1,048	591	86	374	247	248	28	(*)	2	2	1,418	385	16	187	116
44	India.....	820	18	8	80	27	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)
45	Philippines.....	715	4	14	54	38	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)
46	Other.....	2,000	481	64	289	180	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)
47	International, unallocated.....	4,358	543	195	630	433	.....	.....	.....	.....	.....	3,840	285	216	481	257

* Less than \$500,000. ** Combined in other industries.

1. The value of investments in specified industries and countries is affected by capital flows among foreign affiliates shown in table 5.

2. Represents U.S. owners' share in the reinvested earnings of foreign corporations.

3. Does not mean that all countries grouped in an "other" or regional category have U.S. direct investment at any given time.

4. Direct investment statistics do not show any investments in Eastern Europe.

5. Includes Austria, Cyprus, Finland, Gibraltar, Greece, Greenland, Iceland, Ireland, Malta, Portugal, Turkey and Yugoslavia.

6. Includes Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

7. Includes Bolivia, Dominican Republic, Ecuador, Haiti, Paraguay, and Uruguay.

8. Includes all of the Western Hemisphere except Canada and the 19 Latin American Republics included in line 26.

direct investment at the beginning of the year, for three of the measures (it is not possible to calculate a rate of return for the "earnings" measure because data on the U.S. share in the net worth of the foreign affiliates were not

collected for the years covered). Definition of the basic components (panels A through F) and explanation of the relationship among them are given in the Technical Note at the end of this article. The following paragraphs

review the components one by one.

Net earnings of foreign branches in 1971 were \$3.1 billion, an increase of \$0.7 billion from 1970 (panel A). Petroleum branches in "other areas", which include most of the crude production affiliates and the marketing and shipping affiliates, accounted for the major part of these earnings.

The U.S. direct investors' receipts of common stock dividends from incorporated foreign affiliates were \$3.5 billion in 1971, an increase of \$0.6 billion from 1970 (panel B). Manufacturing affiliates in developed countries were the largest source of dividends. Foreign withholding taxes on common stock dividends in 1971 were \$0.4 billion (panel C). These are taxes paid by incorporated affiliates to foreign governments in connection with common dividends paid to U.S. direct investors. These taxes are mainly paid to developed countries by manufacturing affiliates.

The U.S. direct investors' share of the reinvested earnings of incorporated affiliates was \$3.1 billion in 1971, up from \$2.9 billion in 1970 (panel D). Close to half of reinvested earnings were in manufacturing affiliates in developed countries. (The sum of reinvested earnings, dividends, and foreign withholding taxes equals the U.S. direct investors' share in earnings of incorporated foreign affiliates.)

Interest received by direct investors from affiliates in 1971 was \$0.6 billion (panel E). Interest receipts have grown rapidly in recent years (they were only \$0.2 billion in 1965) in part because of increases in interest rates. Interest, comprising receipts from all forms of foreign organization, comes mainly from affiliates in the developed countries.

Direct investment royalties and fees are net payments by foreign affiliates to U.S. direct investors for: (i) royalties, license fees, and rentals, which include parent company charges to cover a portion of expenses of research and development of new products and processes and rental fees for the use of tangible property; (ii) management fees and service charges, which represent an allocation of administrative and other expenses incurred by parent companies on behalf of their foreign affiliates.

Selected Data Items, Countries, and Industries
(dollars)

Manufacturing					Other industries					Line
Book value at year-end ¹	Net capital outflows	Reinvested earnings ²	Earnings	Interest, dividends, and branch earnings	Book value at year-end ¹	Net capital outflows	Reinvested earnings ²	Earnings	Interest, dividends, and branch earnings	
35,475	1,468	1,785	3,783	1,341	19,548	537	689	1,383	1,402	1
29,483	1,324	1,586	3,148	1,628	11,848	239	554	1,408	927	2
18,533	-85	567	525	385	8,096	-28	192	418	296	3
16,538	1,088	785	1,785	790	5,803	196	316	483	639	4
5,421	282	190	486	270	1,321	94	48	203	157	5
8,348	749	462	1,127	637	2,274	76	123	286	150	6
1,016	75	92	125	35	683	31	41	96	62	7
2,167	162	120	228	102	461	4	47	64	10	8
2,267	361	127	576	402	807	20	18	64	58	9
1,061	147	48	112	57	250	12	10	22	13	10
870	4	60	88	41	285	8	15	34	13	11
1,728	97	95	174	84	2,205	34	147	371	222	12
96	(*)	(*)	5	3	57	-4	-28	14	12	13
74		4	5	3	77	5	5	12	7	14
410	20	-4	7	14	281	13	21	30	7	15
210	30	14	21	9	147	2	10	18	0	16
500	13	28	81	44	1,450	-4	52	235	142	17
481	24	44	35	13	273	21	15	60	44	18
333	118	57	393	93	222	15	14	43	49	19
2,448	94	96	244	183	728	78	31	76	48	20
1,846	52	76	101	103	1,285	99	47	80	68	21
114	0	10	17	7	57	6	4	8	4	22
480	35	13	38	22	178	1	31	47	18	23
5,991	243	377	611	421	6,322	391	506	425	304	24
4,998	180	235	587	370	4,454	231	114	374	190	25
4,708	180	216	488	245	2,011	178	76	204	147	26
1,272	67	17	84	78	412	9	3	10	15	27
144	-3	50	44	13	1,012	124	38	35	60	28
77	4	2	5	5	307	13	4	27	18	29
818	18	21	50	31	537	34	-7	20	30	30
1,409	48	112	173	28	372	13	28	37	15	31
50	-5	-5	-3	-1	210	-6	-1	4	5	32
258	30	11	28	15	144	0	3	3	3	33
92	4	(*)	10	9	181	10	1	8	5	34
515	26	27	63	24	648	16	21	65	47	35
80	0	2	7	4	257	(*)	2	11	50	36
290	-0	10	41	26	544	63	38	70	44	37
123	21	3	7	5	258	19	6	32	17	38
(**)	(**)	(**)	(**)	(**)	191	-7	11	17	6	39
121	21	3	7	5	1,044	30	(*)	490	410	40
82	2	5	7	1	118	25	3	0	7	41
779	48	37	98	44	704	48	33	114	83	42
169	5	0	24	15	160	11	2	10	12	43
238	(*)	0	24	11	461	4	5	30	24	44
352	35	22	48	18	1,848	446	43	237	167	45
					2,178	278	-21	150	170	47

1. Includes United Arab Republic (Egypt) and all other countries in Africa except South Africa.

2. Includes Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Qatar, Saudi Arabia, Southern Yemen, Syria, Turkish States, Oman, and Yemen.

NOTE.—For an explanation of the relation between earnings, reinvested earnings, and interest, dividends, and branch earnings see the technical appendix.

These figures are net of any payments by U.S. parents to the foreign affiliates. Table 9 shows data on royalties and fees split between the two major categories listed under (i) and (ii). Payments of royalties and fees by foreign

affiliates to U.S. residents other than their own parents are not included in the data on direct investment royalties and fees covered in this article.

Direct investment royalties and fees were \$2.2 billion in 1971, up more than 13

percent from 1970 (panel F). Manufacturing affiliates in developed countries accounted for roughly three-fourths of the 1971 figure. Affiliates in the petroleum industry, as usual, reported only small payments of royalties and fees.

Table 7B.—Revised 1970 Data on U.S. Direct Investments Abroad,

Millions of

Line	Area and country ¹	Total, all industries					Mining and smelting					Petroleum				
		Book value at year-end ¹	Net capital outflows	Reinvested earnings ²	Earnings	Interest, dividends, and branch earnings	Book value at year-end ¹	Net capital outflows	Reinvested earnings ²	Earnings	Interest, dividends, and branch earnings	Book value at year-end ¹	Net capital outflows	Reinvested earnings ²	Earnings	Interest, dividends, and branch earnings
1	All areas.....	78,178	4,400	2,918	8,788	5,991	8,188	383	111	875	333	21,714	1,480	425	2,935	2,908
2	Developed countries.....	82,146	3,238	2,075	4,853	2,733	3,646	235	94	368	286	11,733	1,085	208	342	286
3	Canada.....	22,730	808	787	1,936	944	2,589	149	70	280	174	4,807	291	169	302	183
4	Europe.....	21,614	1,914	888	2,384	1,390	76	-2	4	5		8,466	663	-13	-35	42
5	United Kingdom.....	7,008	645	312	503	386	5	(**)	(**)	(**)	(**)	1,830	308	-41	-27	40
6	European Economic Community.....	11,774	984	605	1,319	785	15	(**)	(**)	(**)	(**)	2,823	233	38	34	8
7	Belgium and Luxembourg.....	1,523	178	95	174	73	(*)					85	1	-1		-3
8	France.....	2,990	332	147	230	100	10	(**)	(**)	(**)	(**)	310	20	-3	8	10
9	Germany.....	4,497	247	87	616	316	(**)	(**)	(**)	(**)	(**)	1,196	104	-1	30	27
10	Italy.....	1,550	101	34	88	68	(**)	(**)	(**)	(**)	(**)	603	41	-45	-47	-1
11	Netherlands.....	1,608	129	143	183	37	(*)					441	58	65	36	-25
12	Other Western Europe.....	4,746	276	271	477	219	85	(**)	(**)	(**)	(**)	1,704	114	-10	-24	-7
13	Denmark.....	302	43	9	17	13	1	(**)	(**)	(**)	(**)	238	38	-1	-1	3
14	Norway.....	238	34	10	4	-4	(**)	(**)	(**)	(**)	(**)	135	23	-1	-15	-11
15	Spain.....	787	119	17	34	17	(**)	(**)	(**)	(**)	(**)	140	28	-1	-2	1
16	Sweden.....	820	24	20	35	17	(**)	(**)	(**)	(**)	(**)	322	17			
17	Switzerland.....	1,777	6	167	307	138	(*)					-30	-18	3	6	1
18	Other ⁴	961	90	38	83	37	23	(**)	(**)	(**)	(**)	310	12	-10	-12	-2
19	Japan.....	1,483	128	115	226	300						540	65	29	23	5
20	Australia, New Zealand, and South Africa.....	4,356	288	184	462	299	883	86	20	111	84	990	46	29	37	26
21	Australia.....	1,304	228	123	300	200	478	65	22	72	53	(**)	(**)	(**)	(**)	(**)
22	New Zealand.....	184	9	13	23	0	8	0				(**)	(**)	(**)	(**)	(**)
23	South Africa.....	868	51	49	130	90	95	15	-2	39	26	172	(**)	(**)	(**)	(**)
24	Developing countries.....	21,448	1,162	841	3,935	3,058	3,533	148	17	386	367	8,333	448	162	3,215	3,187
25	Latin American Republics and other Western Hemisphere.....	14,750	888	442	1,483	1,057	3,071	130	-17	215	399	3,938	168	68	417	245
26	Latin American Republics.....	12,383	818	360	1,337	881	1,391	55	-17	145	166	3,473	69	40	368	223
27	Mexico.....	1,798	92	51	141	91	153	14	-1	6	5	88	-2	3	4	2
28	Panama.....	1,281	149	74	133	76	10					280	18	10	10	
29	Other Central America.....	624	21	3	32	21	10	2		2	3	180	5	1	-4	-5
30	Argentina.....	1,281	41	15	105	90	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)
31	Brazil.....	1,347	102	106	209	92	131	(**)	(**)	(**)	(**)	118	(**)	17	32	11
32	Chile.....	748	-66	(*)	46	42	456	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)
33	Colombia.....	698	-6	16	45	29	(**)	(**)	(**)	(**)	(**)	334	(**)	1	14	14
34	Peru.....	683	-44	22	70	63	427	(**)	(**)	(**)	(**)	1,736	(**)	(**)	(**)	(**)
35	Venezuela.....	2,704	-5	88	328	363	(**)	(**)	(**)	(**)	(**)	1,736	(**)	(**)	(**)	(**)
36	Other ⁴	628	63	10	32	24	47	-2	-1	14	15	252	58	3	1	-1
37	Other Western Hemisphere.....	2,506	250	82	245	176	879	74		100	103	765	92	29	60	20
38	Other Africa.....	2,414	327	99	707	618	398	-17	33	62	29	1,914	300	49	600	553
39	Liberia.....	187	20	-4	10	31	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)
40	Libya.....	1,012	280	12	804	552	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)
41	Other.....	1,415	77	92	128	57	295	-12	83	68	25	930	90	43	46	9
42	Middle East.....	1,037	-158	-21	1,193	1,216	3					1,442	-161	-21	1,178	1,396
43	Other Asia and Pacific.....	2,467	388	59	317	268	91	35	(*)	-1	-1	1,439	143	9	121	84
44	India.....	308	11	-2	34	20	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)
45	Philippines.....	701	-80	10	47	37	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)
46	Other.....	1,458	248	71	236	142	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)	(**)
47	International, unallocated.....	3,585	227	273	438	174						1,698	-35	119	277	168

¹ Less than \$500,000 (a). **Combined in other industries.

² The value of investments in specified industries and countries is affected by capital flows among foreign affiliates shown in table 8.

³ Represents U.S. owners' share in the reinvested earnings of foreign corporations.

⁴ Does not mean that all countries grouped in an "other" or regional category have U.S. direct investment at any given time.

⁵ Direct investment statistics do not show any investments in Eastern Europe.

⁶ Includes Austria, Cyprus, Finland, Gibraltar, Greece, Greenland, Iceland, Ireland, Malta, Portugal, Turkey, and Yugoslavia.

⁷ Includes Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

⁸ Includes Bolivia, Dominican Republic, Ecuador, Haiti, Paraguay, and Uruguay.

⁹ Includes all of the Western Hemisphere except Canada and the 19 Latin American Republics included in line 26.

Alternative measures of return

Four measures of the dollar return on direct investment, reflecting alternative analytic viewpoints, obtained from different combinations of the components

in panels A through F, are shown in panel G of table 3. Rates of return are shown in panel H and chart 10.

The U.S. share in earnings of the foreign affiliates gives a conventional measure of return from the viewpoint

of the affiliates. This earnings measure sums branch earnings, dividends, withholding taxes, and reinvested earnings of incorporated foreign affiliates (panels A+B+C+D). Interest and royalties and fees are excluded because they are costs to the affiliates.

The U.S. share in earnings of foreign affiliates was \$10.2 billion in 1971. The increase from 1970 was 16 percent, in line with the growth in 1968 and 1969; earnings growth in 1970 was 8 percent. The 1971 increase primarily reflected a rapid expansion in petroleum earnings, as increased production more than offset decreased profits per barrel caused by higher taxes and other costs. The increase in production resulted from growing demands for energy abroad along with a continuing shift away from coal. In 1971, for the first time in several years, earnings of petroleum affiliates exceeded earnings of manufacturing affiliates. The small increase in earnings of manufacturing affiliates mostly reflected increased earnings of Canadian transportation equipment affiliates, which had been depressed in 1970 by labor troubles. Otherwise, manufacturing earnings were held down in 1971 by slack economic conditions abroad. There was very little growth in aggregate earnings of the other industry groups in 1971, as an improvement in earnings of finance and insurance affiliates was offset by some deterioration in mining and smelting. Earnings of mining and smelting affiliates declined because of the Chilean nationalizations, strikes, and lower metal prices. Associated with these changes in the industry composition of earnings was a small decrease in the share of earnings accounted for by developed countries.

Adjusted earnings focuses on the return realized by the direct investor, rather than earnings from the point of view of the affiliates. It is equal to earnings plus interest less withholding taxes paid to foreign governments (panels A+B+D+E). Interest paid by affiliates to direct investors is part of adjusted earnings because loan capital is included in the value of direct investment; foreign withholding taxes on common dividends paid to direct investors are excluded because such

Selected Data Items, Countries, and Industries

dollars

Manufacturing					Other industries					Line
Book value at year-end ¹	Net capital outflows	Reinvested earnings ²	Earnings	Interest, dividends, and branch earnings	Book value at year-end ¹	Net capital outflows	Reinvested earnings ²	Earnings	Interest, dividends, and branch earnings	
22,261	2,285	1,534	2,416	1,889	18,838	1,262	977	1,764	761	1
26,765	1,184	1,287	2,797	1,627	11,910	762	529	1,145	682	2
16,859	304	305	679	350	4,835	163	305	355	228	3
13,746	773	889	1,689	652	6,269	499	299	709	396	4
4,077	102	210	472	234	1,173	148	35	149	111	5
7,177	404	387	1,000	665	2,060	296	100	220	122	6
882	102	43	90	28	612	71	34	84	48	7
1,989	217	120	191	73	302	35	43	43	17	8
2,879	17	48	507	457	574	127	14	48	33	9
324	41	80	118	47	224	10	10	21	19	10
904	80	61	94	61	262	-5	17	33	11	11
1,563	117	112	188	63	2,034	44	160	334	103	12
66	0	2	4	3	50	-1	8	14	7	13
108	0	5	7	1	85	1	12	12	6	14
282	50	-1	8	12	215	22	22	26	4	15
165	5	6	13	7	123	1	12	32	10	16
450	22	56	33	28	1,357	-1	194	216	109	17
412	14	42	52	11	235	23	16	44	27	18
749	32	75	154	69	194	30	11	36	25	19
2,282	75	124	264	145	612	79	11	50	44	20
1,715	40	37	191	112	1,111	114	14	37	44	21
90	2	8	13	0	76	-2	4	7	3	22
428	26	20	36	27	162	15	22	43	16	23
5,485	189	282	641	352	6,868	236	200	468	287	24
4,521	164	225	514	256	4,151	174	162	396	173	25
4,328	100	212	475	236	3,303	80	126	349	147	26
1,100	60	37	110	73	404	21	11	31	12	27
117	-2	29	38	0	856	94	35	66	26	28
74	-4	-1	6	5	260	21	4	23	10	29
771	3	1	60	00	609	38	14	45	31	30
1,347	60	62	157	08	251	31	7	20	19	31
66	-2	3	1	-2	227	-78	17	24	10	32
235	-2	18	25	12	120	5	2	8	2	33
92	-8	0	11	4	180	-13	16	12	-4	34
462	11	20	05	25	806	14	24	77	56	35
78	2	4	7	3	255	4	4	10	7	36
285	-1	10	39	24	728	60	37	50	20	37
100	11	7	18	3	242	34	11	35	25	38
(**)	(**)	(**)	(**)	(**)	167	30	-5	10	21	39
90	11	7	10	3	1,042	230	12	664	552	40
85	1	3	5	2	91	14	9	14	5	41
699	-7	43	69	47	97	-0	-1	16	10	42
157	8	5	22	14	638	17	28	167	79	43
251	-30	15	28	12	148	5	-7	13	15	44
282	21	29	49	22	451	-14	-4	20	25	45
					1,159	224	46	105	121	46
					1,925	262	164	161	11	47

1. Includes United Arab Republic (Egypt) and all other countries in Africa except South Africa.

2. Includes Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Qatar, Saudi Arabia, Southern Yemen, Syria, Trucial States, Oman, and Yemen.

NOTE.—For an explanation of the relation between earnings, reinvested earnings, and interest, dividends, and branch earnings see the technical appendix.

taxes represent a reduction in benefits to direct investors. Royalties and fees are excluded as they are not included in the conventional concept of return on capital.

On the adjusted earnings basis, returns to U.S. direct investors were \$10.4 billion in 1971, \$1.5 billion more than in 1970. The adjusted earnings figures show roughly the same area and industry pattern as the earnings figures discussed above, with petroleum affiliates in "other areas" dominating the change from 1970 to 1971.

The \$10.4 billion of adjusted earnings gave a rate of return of 13.3 percent on the U.S. direct investment position, up significantly from the rate of return in 1970 (panel H). The gain was largely in petroleum. The rate of return in

manufacturing was unchanged at 11.5 percent, while that for other industries fell from 1970 to 1971.

BEA has data for a special sample of 223 U.S. direct investors in manufacturing. These data permit comparison of the rate of return from foreign affiliates in manufacturing with the rate of return on domestic (U.S.) operations. The U.S. rates of return are available only for 1966 and 1970 and do not cover all the U.S. parents for which affiliate data are available. The U.S. rates of return are plotted as points in the third panel of chart 10.

For U.S. direct investments in foreign affiliates, the adjusted earnings measure approximates a return on net worth. The figures for direct investors' domestic operations are a measure of return on

domestic net worth: the U.S. income figure excludes fees and royalties, interest, and related receipts from the foreign affiliates, and the U.S. net worth figure excludes investments in the foreign affiliates. On this basis, the data for 1966 show a domestic rate of return in manufacturing of 11.5 percent, and an adjusted earnings rate of return of 10.7 percent on U.S. direct investments in foreign manufacturing affiliates; in 1970 the domestic rate of return was down to 6.7 percent, while the yield on the U.S. direct investments in the foreign affiliates had increased to 11.5 percent. It should be borne in mind that these comparisons are significantly affected by divergent domestic and foreign economic conditions in 1966 and 1970. In the United States,

Table 8.—Net Capital Outflows to Manufacturing Affiliates by Industry

(Millions of dollars)

Area and year	Manufacturing total	Food products	Paper and allied products	Chemicals and allied products	Rubber products	Primary and fabricated metals	Machinery except electrical	Electrical machinery	Transportation equipment	Other industries
All areas:										
1967.....	1,334	34	66	428	25	242	118	115	50	185
1968.....	944	100	-7	253	4	140	71	-2	1	325
1969.....	1,180	125	8	163	0	136	177	200	115	220
1970.....	1,295	134	111	75	44	191	205	175	109	198
1971.....	1,403	204	52	327		24	302	115	262	102
Canada:										
1967.....	20	-10	45	08	7	-23	3	(*)	-72	1
1968.....	25	21	-18	21	-6	29	(*)	(*)	-51	70
1969.....	248	53	-25	3	5	19	49	50	38	58
1970.....	304	5	50	47	3	74	-39	-5	181	4
1971.....	-85	26	17	31	-7	-23	21	-11	-241	49
Europe:										
1967.....	553	65	11	301	2	100	66	108	32	49
1968.....	482	50	0	104	-1	96	68	-28	23	181
1969.....	606	54	30	100	1	63	104	114	24	104
1970.....	773	90	23	-13	41	85	185	143	50	184
1971.....	1,085	144	33	187	-17	37	345	02	321	57
Japan:										
1967.....	31	2	1	8	(*)	1	18	-2	(*)	4
1968.....	11	(*)	2	13	(*)	1	-10	3	(*)	4
1969.....	30	(*)	1	0	(*)	10	-7	10	5	11
1970.....	32	3	-3	12	1	-4	3	1	3	5
1971.....	118	11	(*)	11	(*)	2	-3	4	35	12
Australia, New Zealand, and South Africa:										
1967.....	224	8	4	15	3	131	10	1	44	5
1968.....	58	10	-1	25	6	18	6	10	10	-1
1969.....	72	12	-1	19	-3	20	4	3	2	21
1970.....	74	3	5	15	6	10	15	3	6	5
1971.....	94	23	(*)	4	2	-6	17	24	21	7
Latin American Republics and other Western Hemisphere:										
1967.....	109	12	3	85	8	34	17	1	-4	45
1968.....	222	12	-1	54	(*)	22	4	9	55	64
1969.....	121	1	-6	-4	1	24	24	16	45	26
1970.....	104	44	-1	21	-1	18	30	23	-3	-17
1971.....	180	-5	1	33	10	2	24		64	51
Other areas:										
1967.....	77	10	2	50	2	(*)	4	5	1	5
1968.....	40	7	(*)	14	7	-5	2	4	2	7
1969.....	78	5	1	37	7	3	3	11	1	7
1970.....	6	-10	1	-7	-2	11	3	8	1	7
1971.....	65	5	2	8	12	8	3	5	2	10

*Revised. *Preliminary. *Less than \$500,000 (±).

1966 was marked by strong pressures on industrial capacity while 1970 was marked by a recession. Abroad, 1966 tended to be a poor year relative to 1970.

The broad earnings measure is the most complete account of benefits received by direct investors from their foreign affiliates. The broad earnings measure is calculated by adding royalties and fees to adjusted earnings (panels A+B+D+E+F). Royalties and fees are included as representing a recovery of some of the research and development costs and administrative costs incurred by the U.S. parent company. Addition of 1971 royalties and fees of \$2.2 billion to adjusted earnings gives a broad earnings figure of \$12.6 billion, up from \$10.9 billion in 1970. The \$12.6 billion represents a

rate of return of 16.1 percent on the U.S. direct investment position; in 1970, the broad earnings rate of return was 15.3 percent. The increase centered in the petroleum industry. The broad earnings measure is concentrated in the developed countries more than the other measures, reflecting the importance of royalties and fees from manufacturing affiliates in those countries.

The balance of payments income measure is the Nation's identifiable return on direct investment as recorded in the U.S. balance of payments accounts. This measure equals broad earnings less reinvested earnings (panels A+B+E+F). Reinvested earnings are excluded because they are not now treated as a U.S. receipt in U.S. balance of payments accounting. (A revision of the U.S. balance of payments

accounting framework that would include reinvested earnings of incorporated affiliates as a U.S. receipt is being considered.)

From the balance of payments viewpoint, the return to the United States on direct investment was \$9.5 billion in 1971. This gave a rate of return of 12.1 percent on the yearend 1970 value of U.S. direct investment of \$78.2 billion, 1 percentage point higher than the 1970 rate of return. The rate varies considerably by area and by industry. Petroleum affiliates in the developed countries show a very low rate, while petroleum affiliates in other areas show a very high rate. This reflects the fact that transfers of oil to affiliates in consuming areas from affiliates in other areas are priced so as to show most of the petroleum firms' profits occurring

Table 9.—Direct Investment Receipts of Royalties and Fees,¹ by Area and Major Industry

(Millions of dollars)

Area and industry	1966			1969			1970 ²			1971 ²		
	Total	Royalties, license fees, and rentals	Management fees and service charges	Total	Royalties, license fees, and rentals	Management fees and service charges	Total	Royalties, license fees, and rentals	Management fees and service charges	Total	Royalties, license fees, and rentals	Management fees and service charges
All areas	1,413	521	492	1,483	943	739	1,919	1,092	826	2,169	1,235	934
Petroleum	115	13	103	105	34	161	216	34	82	269	31	238
Manufacturing	470	218	288	668	518	350	1,003	635	367	1,116	768	348
Trade	58	22	36	133	77	56	156	90	66	200	118	84
Foreign film rentals	287	267	287	287	288	287	290	290	290	295	295	295
Other industries	163	79	64	189	90	172	247	35	212	309	38	262
Canada	190	88	121	242	126	176	367	165	193	397	186	211
Petroleum	15	(*)	15	20	1	19	37	1	10	20	1	19
Manufacturing	124	36	88	187	82	105	225	116	109	250	137	113
Trade	9	3	6	14	6	8	15	0	0	10	7	10
Foreign film rentals	27	27	27	34	34	34	37	37	37	37	37	37
Other industries	14	2	11	47	3	44	62	0	57	67	4	63
Europe	2,410	1,287	159	799	459	211	810	668	242	1,316	654	263
European Economic Community	1,180	584	66	353	267	86	413	314	99	501	376	129
Petroleum	6	(*)	6	22	1	21	31	1	30	48	2	46
Manufacturing	127	79	48	240	208	40	287	287	80	328	290	34
Trade	6	4	2	24	17	7	30	21	9	78	27	20
Foreign film rentals	(*)	(*)	44	44	44	44	48	48	48	48	48	48
Other industries	0	1	8	14	6	0	17	7	10	35	12	23
Other Europe, including United Kingdom	1,165	1,463	93	357	222	125	398	264	143	491	277	153
Petroleum	6	1	5	26	3	23	27	4	23	39	4	35
Manufacturing	100	40	80	288	123	83	220	120	90	235	130	85
Trade	15	6	0	38	34	4	41	30	2	47	63	15
Foreign film rentals	(*)	(*)	65	65	65	65	65	65	65	64	64	64
Other industries	23	6	17	29	7	15	37	8	20	47	8	39
Latin American Republics and other Western Hemisphere	193	80	113	303	133	159	516	143	175	336	168	178
Petroleum	23	2	30	41	0	32	38	0	32	40	4	36
Manufacturing	64	25	30	107	50	57	115	62	53	127	70	57
Trade	17	6	11	28	11	17	33	13	20	37	10	27
Foreign film rentals	44	44	44	67	67	67	64	64	64	64	64	64
Other industries	38	3	32	60	6	53	78	7	70	78	8	70
Other areas	215	115	99	368	185	183	434	216	217	586	237	262
Petroleum	51	9	42	88	20	68	103	22	81	113	28	85
Manufacturing	85	21	34	110	68	42	145	80	65	173	103	70
Trade	11	4	7	20	0	20	37	12	25	64	13	41
Foreign film rentals	36	78	62	62	62	62	57	57	57	55	55	55
Other industries	20	3	16	72	31	41	62	0	56	60	0	60

* Revised. * Preliminary. * Less than \$500,000.

1. Table has been revised to include foreign film rentals received by companies from direct investment affiliates.

2. Breakdown of foreign film rentals for European Economic Community and other Europe not available; amount is included in Europe total.

in the "other areas" because of tax considerations and pricing agreements with the governments of producing countries. For both manufacturing and the "other industries" shown in table 3, the rate of return from affiliates in developed countries exceeded that from affiliates in other areas.

The three rates of return are plotted for the years 1960 through 1971 on chart 10. Over the period as a whole, all the rates of return tended to move up. The increase was sharpest on the balance of payments basis and slowest on the adjusted earnings basis. (Adjusted earnings excludes the fast-growing royalties and fees component.) On all three measures, the growth in the rate of return to the United States was interrupted in 1964 and 1965 by the impact of a slowdown in economic growth abroad, and the uptrend was not resumed until 1968. The rate of

return on the balance of payments basis was least affected, as growth in income transferred to the United States was maintained while the growth in reinvested earnings (which are not included in this measure) slowed.

The rate of return on U.S. direct investments was higher in 1971 than in 1970 on all three measures, mainly reflecting the large increases in the return from petroleum affiliates in producing areas. The rates of return from manufacturing affiliates in 1971 showed little change from 1970 as the effect of an increase in returns was about offset by the growth in the value of investments. The rates of return on manufacturing investments in 1971 remained higher in developed countries than in the other areas despite the economic slowdown in the developed areas.

interest and preferred dividends are reported to the BEA International Investment Division net of such taxes; therefore, our data on withholding taxes relate only to those on common stock dividends.

6. *Dividends*: Dividends on common or voting stock only, paid by foreign affiliates to U.S. parents, net of foreign withholding taxes (item 5); dividends are a balance of payments income flow item.

7. *Preferred dividends*: Dividends received by U.S. parents on preference or non-voting shares, after deduction of any foreign withholding taxes. Preferred dividends are a balance of payments income flow item. Preferred dividends are treated in the same way as interest in these accounts even though on the foreign company's books they are not charged as an expense.

8. *Interest*: Interest received on intercompany accounts or on long-term debt of foreign affiliates held by U.S. direct investors, after deduction of any foreign withholding taxes. Interest is not included in earnings (item 3) since it is deducted as an expense item by the foreign firm, but it is a balance of payments income flow item.

9. *Interest, dividends, and branch earnings*: The sum of dividends (item 6), preferred dividends (item 7), and interest received by or credited to the account of U.S. direct investors (item 8)—all net of foreign withholding taxes—plus branch earnings after foreign taxes (item 2); all before U.S. taxes.

10. *Reinvested earnings*: Not earnings of foreign corporations (item 1) less gross dividends on common stock (item 4).

Technical Note

THE various direct investment earnings items shown in tables 3, 4, 7A, and 7B are defined here and their derivation and relationship to each other are shown.

1. *Net earnings of foreign corporations*: The U.S. parents' share in the earnings of their foreign subsidiaries after provision for foreign income taxes, preferred dividends, and interest payments.

2. *Net earnings of foreign branches*: The earnings of foreign branches of U.S. companies after provision for foreign income taxes but before depletion charges or provisions for U.S. taxes. Included with net earnings of branches are the U.S. share in the net earnings of foreign partnerships, sole proprietorships, and other types of unincorporated foreign organizations. The total amount of net branch earnings is assumed to be repatriated to the

United States and is a balance of payments inflow. To the extent that branch earnings are in fact left abroad, they are implicitly entered in the U.S. balance of payments as capital outflows that offset the inflow of repatriated earnings.

3. *Earnings*: Net earnings of foreign corporations plus net earnings of foreign branches.

4. *Gross dividends on common stock*: Dividends on common stock paid out to U.S. parents by foreign corporations, before deduction of withholding taxes paid to foreign governments.

5. *Foreign withholding tax*: A tax on common stock dividends withheld by the payor at the time the dividends are paid; distinguished from an income tax, which is imposed on the earnings of a business. Taxes are also withheld by the payor on payments of interest and preferred dividends, but both

Derivation and Relationship Based on 1971 Preliminary Data

(Billions of dollars)

1. Net earnings of foreign corporations	7,068 reported
2. Net earnings of foreign branches	3,130 reported
3. Earnings	10,228 = 1+2
4. Gross dividends (on common stock)	3,982 = 6+0
5. Foreign withholding tax (on common stock dividends)	448 reported
6. Dividends (on common stock)	3,534 reported
7. Preferred dividends	10 reported
8. Interest	812 reported
9. Interest, dividends, and branch earnings	7,286 = 2+4+7+8
10. Reinvested earnings	3,116 = 1-4 or 3-2-4